

GOLD CORPORATION
STATEMENT OF CORPORATE INTENT
2016 / 2017

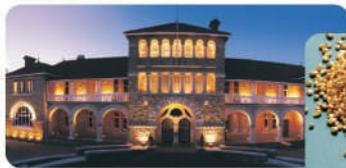




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1. INTRODUCTION

The period from 2007 to 2013 saw an increase in the investment demand for precious metals, increased speculation and significant increases in prices. The environment changed in 2013 and the markets are now uncertain. Although real demand may still be intact, speculative demand has gone and, indeed, speculation against price rises is now evident.

This plan suggests a continuation of current conditions in the world economy. The plan, however, does include a number of strategic actions which will result in some growth even under the projected unexciting market conditions. To the extent that they include capital expenditure, the expenditure will all be funded from internal resources and there will be no need to borrow funds.

Of course, any forecast of economic and market conditions is tentative. There is no way of knowing the future, as history has repeatedly shown. Flexibility and quick reactions will be required as, inevitably, unexpected developments occur. The plan also considers the flexibility necessary to operate in this environment.

2. ACTIVITIES

Gold Corporation, using the trading name The Perth Mint, is an integrated precious metals business, starting with the refining of gold and silver, moving on to the production of London Good Delivery bullion bars, value-added bullion bars, bullion coins, coin blanks and other bullion products and finally providing safe storage for bullion to investors from around the world. It is Australia's sole accredited gold and silver refiner and sole producer of the Australian legal tender bullion coin series. It is also licensed to produce Australian legal tender numismatic, collector or commemorative coins and produces such coins on behalf of other issuing authorities as well. Much of its revenue is generated from exports and it is Western Australia's seventh largest exporter.

Gold Corporation has three subsidiaries; Western Australian Mint, GoldCorp Australia and AGR Management Services Pty Ltd. It's integrated business model operates across all three in such a way that it is impossible to give meaningful financial figures for each of the subsidiaries – the operations report on a consolidated basis.

Aspects of the business are:

Gold Refining

The refinery located near Perth International Airport refines nearly all of Australia's gold doré production, gold produced in surrounding countries and varying quantities of recycled gold, mainly from Asia. It also refines significant amounts of silver.

Gold mines produce most of their gold in the form of doré – gold alloyed with silver and base metals. After the doré arrives at the refinery it is weighed, melted and assayed, after which the producer's bullion account is credited with the precious metal ounces. It takes the refinery about ten days to refine the gold and silver and after that it is ready to be used elsewhere in the organisation, to be sold to customers around the world as bullion (bars and other forms) or, failing either of these, to be shipped to the bullion market in London as London Good Delivery bars.

Coins and Other Minted Products

Some of the gold and silver is turned into coin blanks, either for sale to other mints around the world or for use in The Perth Mint's own products. The latter include;

Bullion Coins

The Perth Mint is one of a handful of mints worldwide which produce bullion coins and is the sole official issuer of Australia's bullion coin series. The series consists of the Australian gold Kangaroo, the silver Kookaburra and Koala, the Lunar gold and silver coins and the platinum Platypus. The purpose of bullion coins is to make available to the public and institutions a convenient way of acquiring precious metals – in a form that can be trusted, is difficult to forge, is easily recognisable and is readily tradable.

Numismatic Coins

These are also sometimes referred to as modern numismatic coins, commemorative coins or collector coins. The Perth Mint is one of two mints issuing Australian legal tender numismatic coins and it also issues coins which are legal tender of Tuvalu, Cook Islands and, occasionally, other countries.

The Australian numismatic coins celebrate Australian culture, places, history, nature and events, and they also promote Australia around the world.

Minted Bars

These are popular in some markets around the world and are minted in the same way as coins. Bearing the mark of a known mint or refiner and packed in tamper proof packaging, they are another way in which precious metal can be acquired conveniently.

Depository – The Safe Storage of Precious Metals

Perth Mint Depository allows customers to own precious metals with the following advantages:

- They do not have to deal with the problems associated with taking physical possession of the metal, like transport, physical security or insurance.
- The metal can be liquidated (sold for cash) readily and the cash remitted to the customer's bank account. The customer does not have to transport it anywhere and can give the instruction to sell from anywhere in the world.

Customers wishing to invest in precious metals in Perth Mint Depository have access to the following types of products:

Unallocated Metal: A customer owns part of a pool of precious metal. The metal is in various locations: the mint, the refinery, vaults or in bullion banks in London. The metal is used to fund the bullion inventory needs of Gold Corporation, and the metal in London is kept there for liquidity and transactional purposes. The advantage to customers is that they pay no storage fees.

Allocated Metal: Specific precious metal items (coins or bars) are kept for customers in the vaults. The metal is not used by Gold Corporation and there is a storage charge for the service.

Pool Allocated Metal: Customers own a share in a stock of bullion bars kept in vaults. Gold Corporation does not use the metal and a storage charge (lower than for Allocated Metal) is payable.

The ways in which customers have access to these products are:

Perth Mint Certificate Program: This is for small investors.

Perth Mint Depository Services: This is for investors wishing to invest larger amounts.

Perth Mint Gold: This is for gold only and is a security listed on the Australian Stock Exchange.

The Shop & Exhibition

The Perth Mint is housed in a beautiful heritage building, erected when the Perth Branch of the (British) Royal Mint was founded in 1899. The Hay Street site contains all of Gold Corporation's operations, other than the refinery, and accommodation has been increased over the years with the addition of a number of new buildings. Part of the ground floor of the original building is taken up by the Shop & Exhibition.

The Shop sells not only The Perth Mint's own products; coins and bullion bars, but other Australian goods like natural gold nuggets, South Sea pearls, opals, pink diamonds and all these items set in jewellery.

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The Exhibition is an interesting tourist attraction displaying historical and modern coins and gold bars, and visitors get a glimpse of the actual coin minting process through security glass. The highlights of any visit are the world record holding 1 tonne gold coin and the hourly gold pour in the historic melt house, in which a 200 ounce bar of pure gold is melted and poured into a bar – with much drama.

3. OBJECTIVES

The financial objectives of Gold Corporation are:

- To earn a commercial return on capital.
- To meet its capital expenditure and other funding requirements from its own resources.
- To pay tax equivalent and a 75% dividend to Government.
- To remain debt free.

According to the financial projections, Gold Corporation will achieve its financial objectives during the plan period.

Operational Objectives are:

- Continue enhancement of safety, environmental and quality systems.
- Maintain gold and silver refining volumes and levels of service to the precious metals industry.
- Increase bullion coin world market share.
- Continue developing the market for numismatic coins.
- Increase precious metal in depository to meet the operation's precious metals requirements.
- Grow Pool Allocated products in Depository once funding needs are met.
- Increase Gold Corporation's profile in the industry and Western Australia.

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4. PRIORITIES FOR 2016/17

- Improved management of safety and the environment within the Corporation.
- Maintain high levels of service to refining customers to retain their business in the face of recently emerged serious competitive pressures.
- Increase direct sales of value-added gold bars into target markets.
- Continue to market the new high volume silver Kangaroo bullion coin in the USA and Europe and build up market share. Try to increase market share in all bullion coins utilising blanks produced in the completed silver blank factory.
- Pursue international accounts and grow on-line depository business.
- Actively market all components of Gold Corporation's business to existing and target customers.
- Continue to replace the outdated ERP system.
- Withdraw from involvement in former State Batteries as the Corporation is not equipped to manage them.

5. CAPITAL INVESTMENT

The cost of Gold Corporation's Capital Investment Programme from 2016/17 to 2020/21 is \$36.9 million. It covers the following:

Fixed Assets, Including Plant and Equipment

- The assay lab upgrade will be completed by 2017, allowing Gold Corporation to continue to operate at international standards and maintain its accreditation with the London Bullion Market Association (LBMA) without which Gold Corporation cannot compete in international markets.
- The electrolytic gold room will be completed during 2017 enabling Gold Corporation to produce 99.999% gold product in order to meet market demand.
- Routine capital expenditure in the mint and refinery is managed in terms of a rolling 10-year plan. This contains replacement of equipment due to wear and tear, technology upgrades, efficiency improvements, waste reduction, safety enhancements and security enhancements.

Intangibles

- The ERP replacement project will commence in the plan period.

6. BUSINESS MANAGEMENT

Dividend Policy

A dividend of 75% of after tax profit will be paid.

Borrowings

Gold Corporation will not seek to borrow any funds from WATC and will fund its capital expenditure from operational cash flows.

Accounting Policies

The Corporation's financial statements for the year ended 30 June 2015 have been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), which comprise a Framework for the Preparation and Presentation of Financial Statements (the Framework) and Australian Accounting Standards (including the Australian Accounting Interpretations).

The Financial Management Act 2006 and the Treasurer's Instructions are legislative provisions governing the preparation of financial statements and take precedence over the Accounting Standards, the Framework, Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board.

Details of Gold Corporation's significant accounting policies can be found in the Notes to the Financial Statements in the 2015 Annual Report.

Performance Reporting

The Chairman and Board of Directors are appointed in terms of Section 5 of the *Gold Corporation Act 1987*. One director is the Under Treasurer as an *ex officio* board member.

The Board receives monthly reports on the performance of Gold Corporation and more detailed quarterly reports are tabled at quarterly board meetings. A special meeting is held to approve the annual accounts and additional board meetings are held when necessary.

The Board has established three committees – the Audit and Risk Management Committee, the Remuneration & Allowances Committee and the Occupational Health, Safety and the Environment Committee. These meet regularly as appropriate.

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Meetings are also held with the Minister or members of his staff regularly at which performance and other issues are discussed.

Annual Report

Gold Corporation's web site at www.perthmint.com.au promotes the organisation and its business. It also contains the annual report and other important documents. It is anticipated that the annual report for the plan year will have contents similar to the one currently on the web site. Printed annual reports will be submitted to the Minister (the Premier), Department of Treasury and the required number of copies for tabling in Parliament.

RICHARD G HAYES

Chief Executive Officer

19 November 2015

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APPENDIX A – FINANCIAL OUTCOMES AND BUSINESS TARGETS

TARGETS

	<u>Forecast</u> 2015-16 \$000	<u>Projected</u> 2016-17 \$000
Assumptions		
Gold Price - USD/oz.	1,105	1,099
Exchange Rate USD/AUD	0.708	0.684
Dividend Provision Rate - Percentage of After Tax Profit	75%	75%
Financial outcome		
Operating Profit before Income Tax	24,705	27,600
Operating Profit after income Tax	17,294	19,320
Dividend (for previous fin. year)	10,544	12,969
Net Surplus	(3,738)	(269)
Net Assets/Equity	124,930	131,281
Capital Expenditure	9,269	12,993
Performance Indicators		
Return on Fixed Assets (projected)	25%	29%
Return on Equity (before tax)	21%	23%
Accruals to Government		
Income Tax	7,411	8,280
State Tax on Payroll	1,620	1,748
Dividend	10,544	12,969
Total Accrual to Government	19,575	22,997